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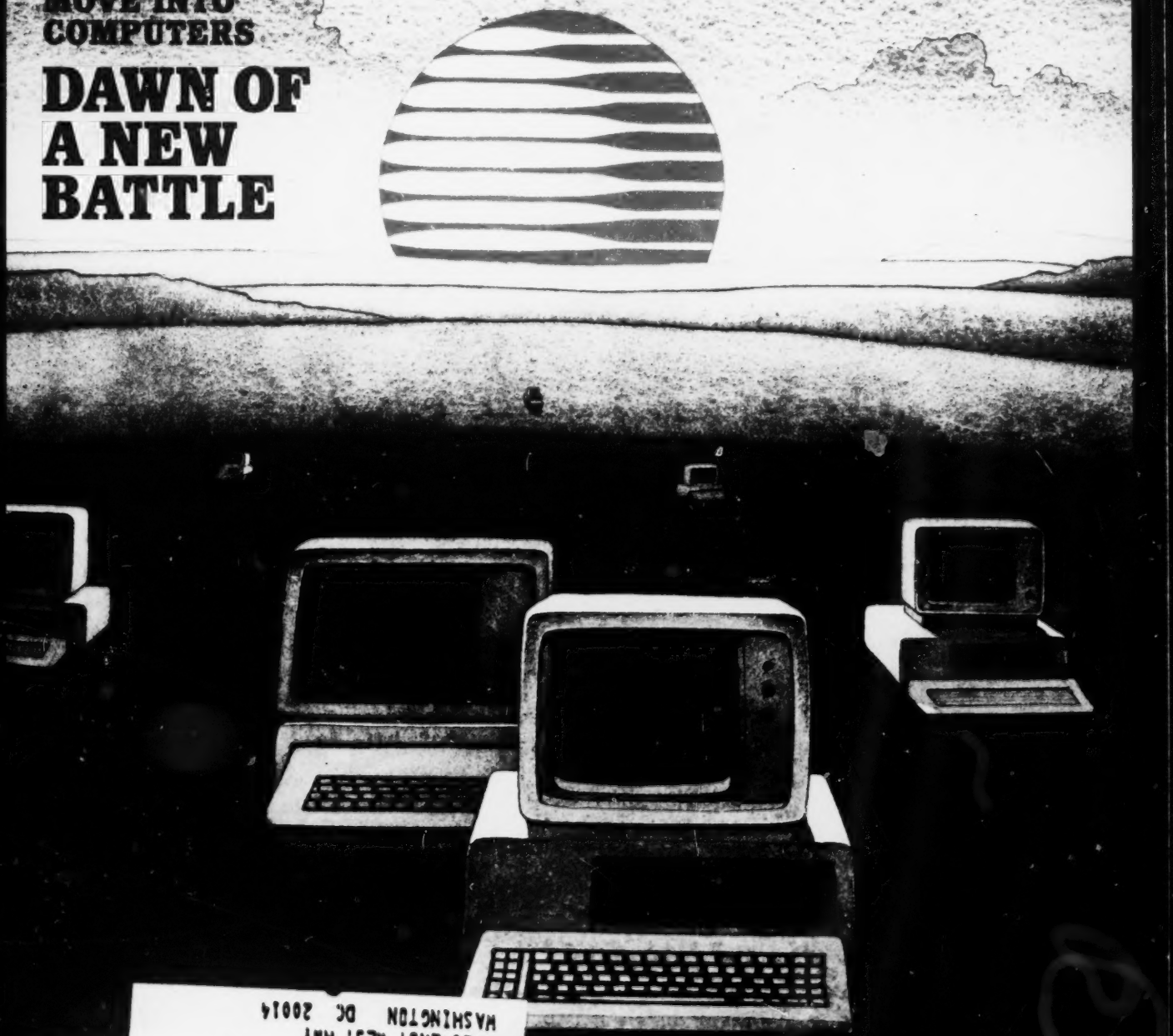
Forbes

AT&T'S MOVE INTO COMPUTERS

DAWN OF A NEW BATTLE



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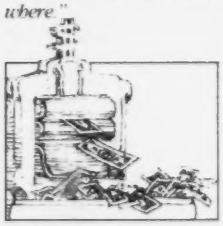

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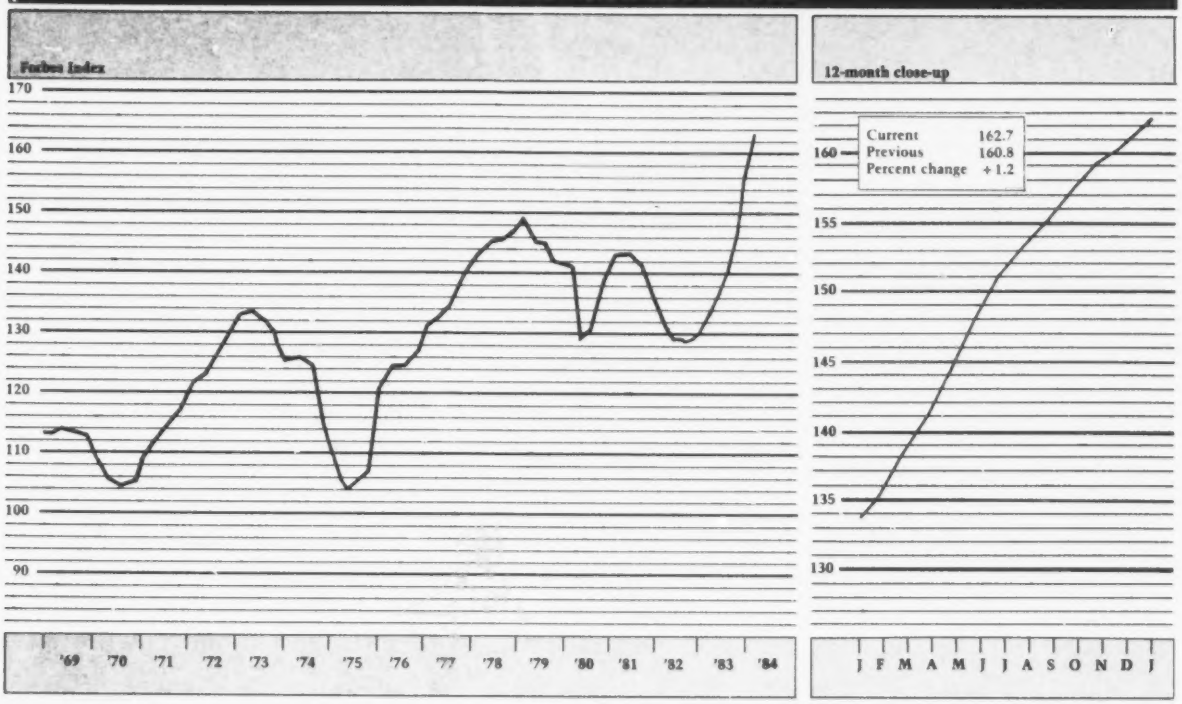
The Forbes Index

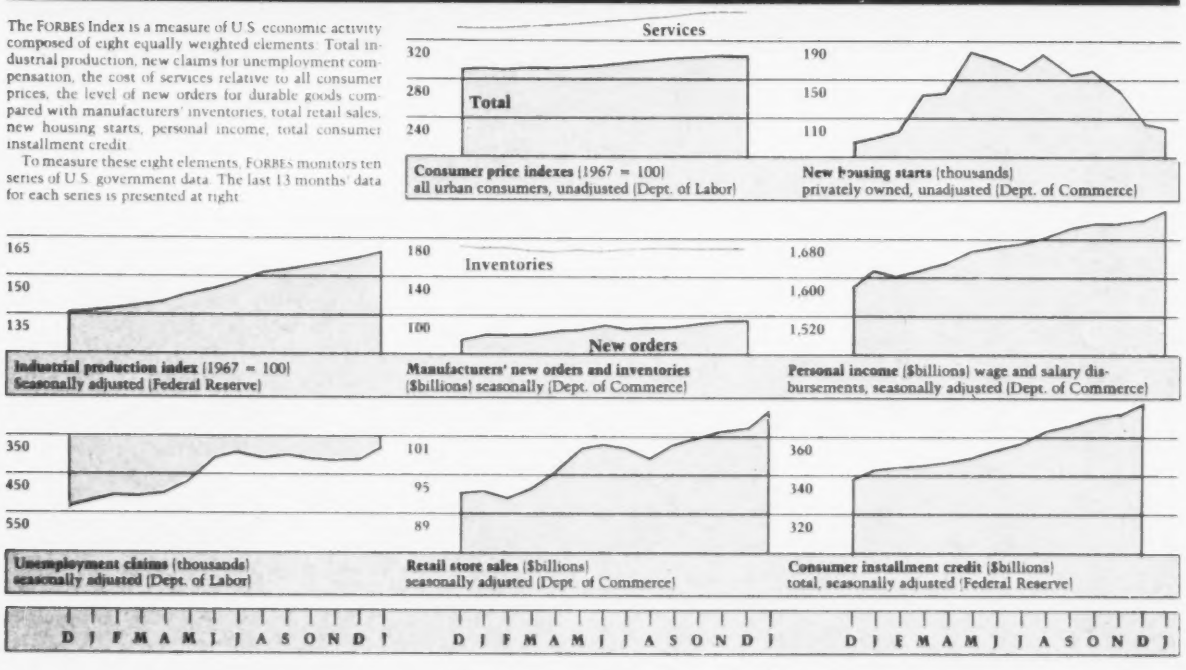


Rising tide. The recovery continues to gain strength. Positive trends of several of its major components helped the Forbes Index hit another new high. Retail sales show seasonally adjusted gains of 2.2% for the latest month, and 13.1% vs. January 1983. Industrial production was up 1.1% from December and now stands some 15.1% higher than it was the same time a year ago. Meanwhile, an increase in spending power is giving consumers more confidence about their purchasing abilities. Personal income is up 1.3% and consumer installment credit, 1.8%. New unemployment claims show a 5.3% month-to-month drop. On a disappointing note, new housing starts fell 0.8% from December to January, vs. a 10% rise from December 1982 to January 1983.

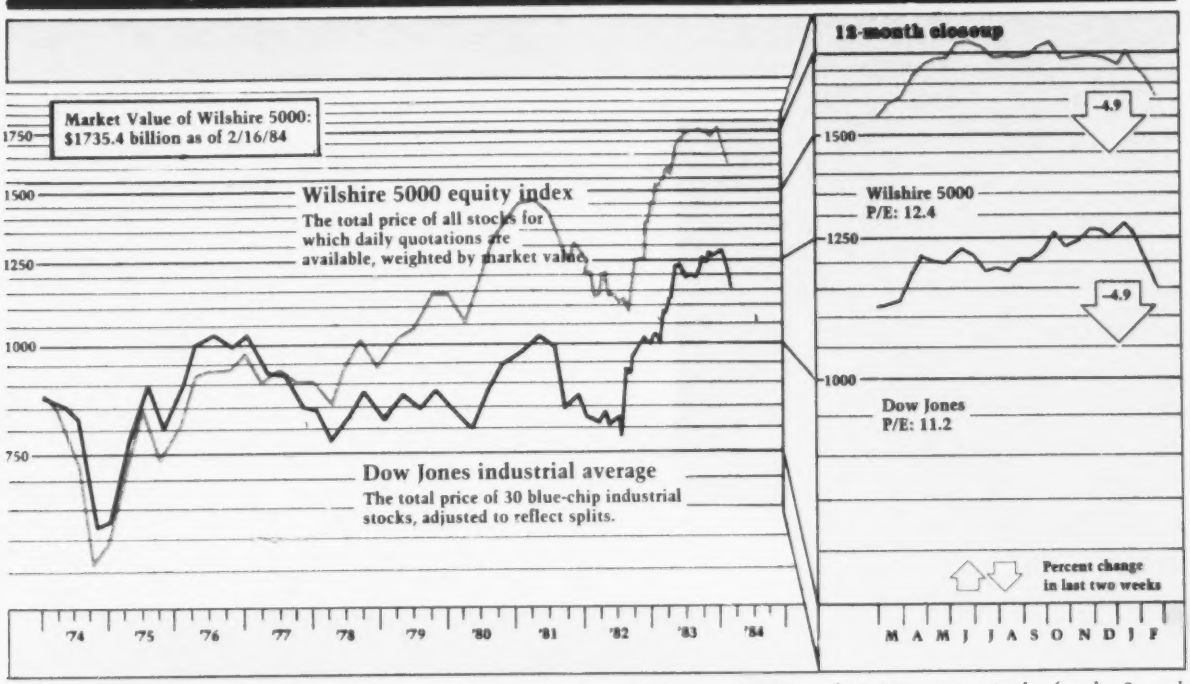
The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 13 months' data for each series is presented at right.



The Forbes/Wilshire 5000 Review



Too much blood. Remember a few short weeks ago, when many experts were predicting the imminent start of the next leg of the bull market? Instead, since the first of the year more than $49 billion in market value has been blown away on Wall Street, as measured by the Wilshire index. Nearly $35 billion of that decline came in the last ten trading days.

Significantly, among the hardest hit stocks were the volatile, mostly smaller-company, NASDAQ issues, which led the bull market upward through the end of 1982. NASDAQ shares, which have been in decline since last summer, continue to be the worst-performing group, with losses of 5.4% and 12.1%, respectively, for the 2- and 4-week periods. And on a 52-week basis the NASDAQ is down by 2.8%. This is the first time since early October 1982 that a major market indicator has shown a year-to-year decline. In contrast, with its 7.8% gain, the far less glamorous Amex continues to outshine the rest of the market on a 52-week basis.

Any silver linings to these dark clouds? There are some. While stocks fell, many companies reported strong quarterly profits. On the estimates front, The Forbes 500 (Sales) now trades at 8 times anticipated 1984 earnings and only 6.5 times anticipated 1985 earnings.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–8.0	–6.8	–8.8	–7.0	–9.5	–12.1
in last 52 weeks	4.2	5.4	6.1	5.5	7.8	–2.8

Stock performance based on five key investor yardsticks

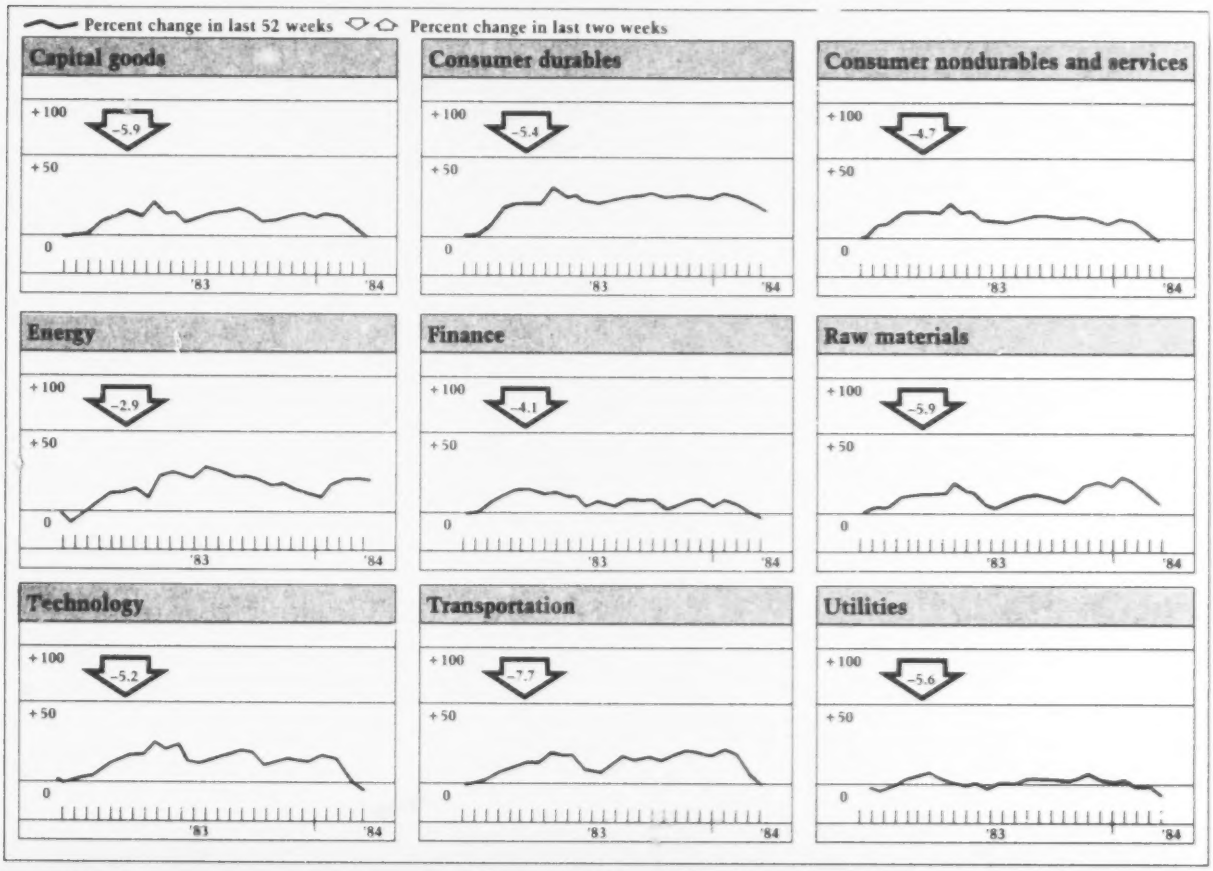
Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	–8.0	–7.8	–11.9	–3.5	–12.1	–8.7	–3.7	–9.9	–10.6	–4.4	–7.8	–9.5
in last 52 weeks	6.1	28.6	17.0	16.2	2.8	27.1	18.3	21.9	17.4	18.3	14.1	19.2

[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 2/16/84. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Pretty beat up. The market took a pummeling during the last two weeks. Losses were across the board, but hardest hit were the transportation stocks, which dropped 7.7%. Five other sectors ended up more than 5% lower at the end of the period. On a four-week basis, the picture is even bleaker. Transportation shares again registered the greatest decline, down 15.5%. Technology stocks did almost as badly—down 13.2%—with IBM helping to lead the decline. Consumer durables, raw materials and capital goods and services all gave up more than 10% of their market value. Only energy shares managed to eke out a minor gain, but this was because of the Texaco-Getty merger and speculation over Gulf Oil. Without that market stimulation, the oils, too, would have declined.



What The Analysts Think

Hand of fate. Transportation stocks might have suffered the greatest drop in prices over the last two weeks, but Wall Street's high-paid analysts saw things in a different light. Of the nine Wilshire sectors, only transportation shares had their 1984 earnings estimates revised upwards. Meanwhile, finance shares had the sharpest estimate cuts.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.56	12.3
1984 estimates	3.94	8.0
1985 estimates	4.84	6.5

Rank based on change in estimate	Sector	Estimated 1984 EPS	% change in 1984 estimate in 2 weeks	% change in 1984 estimate in 4 weeks
1	Transportation	$3.16	0.57%	-1.68%
2	Raw materials	3.55	-0.64	-2.43
3	Capital goods	2.54	-0.90	-3.98
4	Utilities	3.64	-0.94	-1.43
5	Consumer nondurables	2.87	-1.20	-2.05
6	Technology	2.10	-1.21	-2.12
7	Energy	2.94	-1.69	-3.23
8	Consumer durables	3.45	-1.73	-1.66
9	Finance	4.42	-2.45	-3.21

Earnings projections are equal-weighted consensus estimates from over 1,800 security analysts. Forecasts for the 9 Wilshire sectors are limited to firms with 3 or more estimates, with a mean estimate greater than $0.50. Data are compiled and updated weekly by Zacks Investment Research, a Chicago-based quantitative consulting firm.

Note: All data for periods ending 2/16/84. Prepared by Wilshire Associates, Santa Monica, Calif.; Zacks Investment Research, Inc., Chicago, Ill.

Statistical Spotlight

There really isn't any such thing as a perfect stock selection technique. But here's a new tool to add to your bag of tricks.

A new way to spot bargains

By Steve Kichen

TWO ISSUES AGO FORBES wrote about Kenneth Fisher and his use of price/sales ratios to find bargains on Wall Street. Readers quickly asked for more, so we geared up our computers. The accompanying tables present two lists of stocks—61 firms that may be undervalued based on Fisher's theories, and another 61 companies that could be riding for a market fall.

Instead of focusing on earnings, like most analysts, Fisher spends his time tracking sales. "Earnings come from sales, rather than vice versa," he explains. The relationship that he finds most useful is a stock's price divided by per-share revenues, the price/sales ratio. Unlike more conventional P/Es, which often undergo extreme swings, PSRs are much more stable.

A low P/E means that the investors don't think a company's profits are worth much, or that they might fall sharply a quarter or two down the road. A low PSR, by contrast, means investors don't think a company can make much money with the revenues it has—a very different proposition. An important difference here, says Fisher, is that P/E ratios are useless when companies are losing money. But PSRs are useful as an early indicator of what might happen if profitability returns.

PSR analysis may help identify the next Chrysler, Ford or Pan Am. At its low in 1981, for example, Chrysler was losing millions and showed up on no one's low-P/E stock list. But the automaker had a PSR of 0.02 when the market average was 0.3—a screaming buy according to Fisher's thinking. International Harvester sent out similar signals. In January of 1983, its PSR was 0.05, but over the next 12 months the stock went from 4¼ to 11½. One more example: The other four best performers among the

Low PSRs may make these stocks good buys

Here is a group of stocks with low price/sales ratios. There are plenty of other stocks with low PSRs, of course, but those risky shares couldn't pass our conservative screens. By contrast, each of the 61 companies below, with PSRs ranging from 0.05 to 0.31, has a current ratio above 1.2, sales greater than $25 million and debt as a percentage of equity below 50%.

Company/business	PSR	Recent price	Latest 12-month P/E	EPS	Sales (millions)	5-year sales growth	Current ratio	Debt/ equity
Monfort of Colorado/food processing	0.05	14⅞	4.7	$3.15	$1,374.5	34%	1.3	22%
SM Flickinger/food wholesaler & retailer	0.08	23¼	9.4	2.48	1,483.6	15	1.7	44
Tesoro Petroleum/integrated oil	0.08	16⅛	5.3	3.05	2,813.8	10	1.3	25
Friona Inds/food processing	0.11	11⅛	7.2	1.55	244.5	28	1.9	32
Mott's Super Markets/supermarkets	0.11	11⅜	18.1	0.63	294.7	11	2.1	6
Std Commercial Tobacco/tobacco	0.13	19½	6.4	3.07	427.0	18	1.3	24
Fischbach/electrical contracting	0.14	52¼	8.1	6.45	1,339.1	22	1.9	26
Glosser Brothers/retail, supermarkets	0.14	15	8.1	1.85	243.6	14	1.7	12
Pittsburgh-Des Moines/steel	0.14	17	NM	–1.61	297.6	11	1.5	22

NM: not meaningful

Sources: Media General Financial Services Inc. by Business Information Systems, Wilshire Associates, Forbes

Statistical Spotlight

30 Dow industrials for 1983 (Allied Corp., American Can, Bethlehem Steel and U.S. Steel) all started the year with PSRs below 0.16. "If you want to outperform the Dow, buy the bottom quartile PSRs," says Fisher.

In his search for bargains, Fisher also likes to track PSRs over time. Few companies, he feels, can grow at rapid rates without suffering some glitch. When the fall comes, however, profits and margins fall—and investors typically batter the stock. This is often when the PSR begins to shrink, which means that Fisher starts getting interested. If management can work a turnaround, a low-PSR stock can be a tremendous bargain.

Though low PSRs tempt Fisher, he becomes increasingly cautious as this ratio rises above 1. If a company has any earnings at all, a high PSR means one of two things: that it has a fat earnings multiple with low profit

Low PSRs may make these stocks good buys

Company/business	PSR	Recent price	Latest 12-month P/E	Latest 12-month EPS	Sales (millions)	5-year sales growth	Current ratio	Debt/equity
IPM Technology/airport svcs	0.14	4⅛	7.9	$0.52	$ 57.2	62%	1.6	44%
Brockway/packaging	0.15	16¼	NM	–0.77	828.7	12	1.6	37
Malone & Hyde/food wholesaler	0.15	25⅞	11.2	2.31	2,681.4	16	1.4	43
Perini Corp/construction	0.15	39⅞	11.2	3.55	883.7	29	1.3	15
Mayflower/trucking	0.16	16½	7.1	2.34	379.3	12	1.6	19
Sunshine-Jr. Stores/supermarkets	0.16	16⅛	14.8	1.09	172.3	18	1.5	5
Whittaker Corp/multicompany	0.17	19⅛	7.5	2.55	1,602.7	17	1.5	46
Winn-Dixie Stores/supermarkets	0.17	29⅝	10.8	2.74	7,133.2	11	2.0	18
Riblet Products/mobile homes	0.18	11⅞	5.7	2.08	87.3	15	1.5	14
Bergen Brunswig/health care supplies	0.19	23½	14.2	1.65	1,510.2	47	1.6	12
CDI Corp/engineering svcs	0.19	26⅞	10.2	2.63	263.1	16	1.6	33
Graham/industrial equipment	0.20	12½	11.1	1.13	52.2	10	2.6	27
Hampton Inds/apparel	0.20	9⅝	9.1	1.06	125.0	13	2.8	49
Research-Cottrell/machinery	0.20	15¾	NM	0.24	386.2	12	1.3	30
Spectro Inds/health care supplies	0.20	18¾	12.1	1.55	376.0	24	1.6	39
Suave Shoe/footwear, apparel	0.20	8	11.6	0.69	111.5	12	3.9	26
Alberto-Culver/cosmetics	0.21	17	15.7	1.08	317.2	17	1.6	30
Esquire Radio & Elec/electronics	0.21	28	7.5	3.75	63.6	10	2.2	0
Ingredient Tech/food processing	0.21	13⅛	21.2	0.62	120.5	25	1.9	20
Minnesota Fabrics/textiles	0.21	7⅞	13.6	0.58	128.9	15	2.8	27
Peoples Drug Stores/drugstores	0.21	21⅝	12.1	1.79	791.2	20	1.8	43
Todd Shipyards/maritime construction	0.21	30	6.5	4.64	651.5	21	1.6	32
Dynalectron/electrical contracting	0.21	12⅜	11.7	1.06	538.5	13	1.6	37
Federal Company/food processing	0.22	31¾	10.4	3.06	1,171.4	10	2.0	16
Movie Star A/apparel	0.22	16¾	8.8	1.90	63.3	11	2.0	20
Spencer Cos/footwear, apparel	0.22	12	14.6	0.82	95.4	13	1.8	9
Atlas Van Lines/trucking	0.23	11⅞	8.0	1.49	170.6	13	1.7	20
Consolidated Foods/food processing	0.23	27¾	9.1	3.05	6,788.9	13	1.4	29
Rose's Stores/retail	0.23	17	8.5	2.00	766.4	10	1.6	12
Wells-Gardner Electronics/electronics	0.23	4⅞	15.2	0.32	75.4	60	9.5	0
Alco Standard/multicompany	0.24	34⅜	12.3	2.80	2,785.9	16	1.8	38
Armstrong Rubber/tire and rubber	0.24	35	7.3	4.78	618.4	14	2.2	35
American Building Maint/ind svcs	0.25	23¼	10.3	2.26	329.1	16	2.0	8
CRS/Sirrine Inc/architectural svcs	0.25	17⅝	9.2	1.91	166.7	111	1.7	8
Cluett, Peabody/apparel	0.26	26⅞	9.4	2.85	847.6	10	2.3	43
Republic Automotive Parts/dist auto parts	0.27	9⅝	17.2	0.56	99.4	10	3.3	16
United Technologies/aerospace	0.27	66⅛	8.3	7.94	14,669.3	22	1.5	33
Fabri-Centers of Amer/specialty retail	0.28	11	11.3	0.97	206.6	17	2.6	31
GRI Corp/mail order sales	0.28	9¼	13.0	0.71	79.0	11	2.0	4
Genovese Drug Stores/drugstores	0.28	13⅜	16.6	0.82	158.7	22	1.5	38

NM: not meaningful

Sources: Media General Financial Services Inc. by Business Information Systems, Wilshire Associates, Forbes

Statistical Spotlight

margins or that it has a low earnings multiple with fat margins. Fisher thinks either situation is risky. A fat P/E means that investors are buying future earnings growth, which may not pan out. Fat margins, on the other hand, are tempting targets for competitors and government regulators.

Taking Fisher's theories as a guideline, we used our computers to sort through several databases to generate the accompanying tables. The list that begins on the bottom half of this page contains 61 stocks with PSRs greater than 3. Genentech, a startup company, leads the group with a PSR of 11.41. Many of these firms appear on our annual Up & Comers list. These stocks have kept Wall Street enchanted, but Fisher thinks that on average they now carry more risk than

Low PSRs may make these stocks good buys

Company/business	PSR	Recent price	Latest 12-month P/E	Latest 12-month EPS	Sales (millions)	5-year sales growth	Current ratio	Debt/ equity
Great Amer Inds/rubber prods, recreat	0.28	25½	18.9	$1.35	$ 132.7	14%	3.0	28%
United States Sugar/sugar	0.28	55	8.8	6.24	274.6	42	2.3	11
Arthur D Little/research svcs	0.29	22½	10.2	2.20	180.1	11	1.7	7
Gilbert Associates/engineering svcs	0.29	25¾	10.3	2.51	237.8	12	1.8	3
LD Brinkman/floor covering	0.29	10¼	7.4	1.39	219.1	20	1.4	24
N American Philips/electronics	0.29	71½	10.8	6.60	3,529.1	13	2.3	34
Stepan/chemicals	0.29	16⅝	9.5	1.75	207.1	16	1.7	46
Allied Corp/chemicals, auto parts	0.30	51¼	7.4	6.91	9,243.0	31	1.3	35
Federated Dept Stores/retail	0.30	52¼	8.2	6.34	8,411.6	12	1.6	33
General Foods/food processing	0.30	49⅞	8.3	5.99	8,573.4	12	1.9	39
Wolverine World Wide/footwear	0.30	15	9.0	1.67	355.1	22	2.2	34
American Petrofina/integrated oil	0.31	59¼	11.7	5.10	2,102.6	17	1.4	35

Sources: Media General Financial Services Inc. by Business Information Systems, Wilshire Associates, Forbes

High PSRs may make these stocks good-byes

Because Wall Street rewards growth, it has looked favorably upon the 61 stars in the table starting below. But look again. With price to sales ratios ranging from 3.15 to 11.41, these shares are especially vulnerable if their future earnings and margins fail to meet the high expectations of investors.

Company/business	PSR	Recent price	Latest 12-month P/E	Latest 12-month EPS	Sales (millions)	5-year sales growth	Current ratio	Debt/ equity
Genentech/genetic engineering	11.41	37¾	NM	$0.08	$47.0	74%	3.0	7%
Network Systems Corp/computer equip	10.49	19½	50.0	0.39	40.4	64	13.1	1
Telerate/financial info services	9.47	19	35.2	0.54	88.3	109	7.2	0
ALZA Corp/drug research	8.78	16¼	NM	–0.33	25.7	43	4.6	486
Cetus/genetic engineering	8.68	11⅜	NM	–0.12	28.9	62	6.7	4
Value Line/publishing	7.86	34¼	36.4	0.94	43.6	29	1.2	0
Emulex/computer equip	7.33	38½	26.2	1.47	31.0	60	5.5	0
Micom Systems/computer equip	7.25	37¾	35.0	1.08	79.4	60	4.2	0
Optical Radiation/electro-optical equip	7.15	27¾	45.5	0.61	26.7	105	5.5	5
Systems & Computer Tech/software and services	7.05	23	39.0	59	43.8	100	16.3	NA
Policy Mgmt Sys/software for insurance industry	6.96	24¼	39.3	0.63	57.6	49	4.9	0
Comdata Network/money transfer services	6.04	19¾	35.9	0.55	66.0	79	2.4	0
Oregon Metallurgical/specialty metals	6.02	11¼	NM	–0.02	44.0	–8	23.1	0
Sensormatic Electron/electronic theft prevention	5.89	18½	19.3	0.96	67.0	91	3.3	47
Intergraph/computer equip	5.85	39¼	38.9	1.01	155.6	78	1.8	3
Brenco/railroad equip	5.38	8½	NM	–0.20	28.2	–14	8.6	0
InteCom/electronics	5.38	14	NM	0.23	34.4	79	5.1	0
Conquest Explr/oil and gas explor, products	5.29	9⅝	56.6	0.17	28.2	–11	2.2	160
Digital Switch/telecomm equip	5.26	24¼	29.9	0.81	27.4	74	7.1	8
Silicon General/electronics	5.17	13½	25.5	0.53	29.0	19	4.8	6

NA: Not available. NM: Not meaningful. *Sources: Media General Financial Services Inc. by Business Information Systems, Wilshire Associates, Forbes*

Statistical Spotlight

reward.

The 61 stocks in the list that begins on page 202 are in a very different situation. These firms have PSRs of 0.31 or lower, debt as a percentage of equity no higher than 50%, and a current ratio greater than 1.2. Leading the list are companies in the food industry, where traditionally there is high sales volume and low margins. But a slight improvement in profitability can translate into a large swing in earnings. This can backfire, of course, if margins deteriorate further.

One final warning: "Don't buy a company just because it has a low PSR," says Fisher. "Baldwin-United, for example, had a ridiculously low PSR. Companies about to go bankrupt always have low PSRs." Other, more conventional, factors that Fisher studies are debt/equity ratios, liquidity measures and R&D relative to market capitalization. Like all successful investors he realizes that just one indicator—even his beloved PSR—can be misleading. ■

High PSRs may make these stocks good-byes

Company/business	PSR	Recent price	Latest 12-month P/E	Latest 12-month EPS	Sales (millions)	5-year sales growth	Current ratio	Debt/equity
Cullinet Software/software	5.14	34⅛	36.3	$0.94	$ 97.9	70%	2.9	0%
Homestake Mining/gold, lead and zinc	5.09	31¾	29.4	1.08	231.8	5	8.9	2
ASK Computer Sys/computer services	4.96	16⅞	38.4	0.44	39.4	93	3.4	3
Flightsafety Intl/flight training	4.95	26	17.4	1.49	77.4	31	1.8	29
Standard Microsystems/electronics	4.82	16⅞	25.6	0.66	27.0	51	9.0	10
Intelligent Systems/computer equip	4.75	18¼	26.8	0.68	34.6	79	6.9	1
Seagate Technology/computer equip	4.69	11⅞	20.1	0.59	110.4	87	4.5	6
Cray Research/computer equip	4.68	48⅛	27.2	1.77	149.7	57	4.6	23
Ultimate Corp/computer equip	4.60	16½	23.2	0.71	35.0	64	1.9	0
Wiser Oil/oil and gas	4.58	25	20.2	1.24	49.6	13	5.9	0
Convergent Technologies/computer equip	4.51	20	44.4	0.45	160.6	66	12.5	1
Hecla Mining/silver, zinc and lead	4.38	20	19.0	1.05	85.5	17	7.0	17
Community Psych Ctrs/health care services	4.35	29¼	21.8	1.34	133.4	64	3.8	50
Key Pharmaceuticals/ethical drugs	4.34	15⅝	30.6	0.51	127.3	87	1.6	2
HBO & Co/hospital computer services	4.27	26½	31.9	0.83	67.6	103	2.7	11
Woods Petroleum/oil and gas explor, products	4.16	26¼	18.6	1.41	74.5	24	1.2	17
Chi-Chi's/fast food	3.96	19¼	36.3	0.53	127.7	57	2.0	115
Quotron Systems/financial info services	3.89	16½	23.9	0.69	144.0	56	2.8	1
DST Systems/software	3.85	18	18.9	0.95	36.7	101	3.8	90
LIN Broadcasting/broadcasting	3.85	19¾	18.6	1.06	107.4	23	4.8	97
Mylan Laboratories/ethical drugs	3.85	23⅝	40.3	0.59	31.9	14	4.8	15
Prime Motor Inns/motels	3.83	18⅝	17.1	1.09	69.3	25	5.8	82
Tellabs/telecomm equip	3.80	21¾	24.7	0.88	78.4	70	7.6	13
United Television/broadcasting	3.77	13¾	19.4	0.71	43.2	15	3.4	7
Evans & Sutherland Comp/computer equip	3.76	23	20.2	1.14	53.7	71	2.8	3
Intl Hydron/eye care products	3.69	13⅞	38.5	0.36	41.7	44	2.9	NA
Monolithic Memories/computer equip	3.67	22	26.8	0.82	105.4	40	4.0	5
Quantum/computer equip	3.56	16¼	15.8	1.03	41.8	59	4.3	0
Eagle Computer/computer equip	3.55	7	53.8	0.13	28.7	77	3.5	0
Computer Assoc Intl/computer software	3.49	23	27.4	0.84	58.1	60	5.1	16
Avantek/electronics	3.40	20¼	33.8	0.60	110.9	63	5.1	3
Intel/electronics	3.39	34½	32.9	1.05	1,121.9	25	2.9	11
PAR Technology/computer equip	3.39	13	19.7	0.66	29.1	121	4.0	1
Matrix Corp/health care products	3.30	23¾	27.3	0.87	54.4	119	3.9	13
Molex/electronics	3.28	35	23.3	1.50	212.7	27	2.9	5
Lee Data Corp/computer equip	3.27	18¼	15.6	1.17	73.8	75	6.0	1
TeleVideo Systems/computer equip	3.20	13	22.8	0.57	98.5	114	3.8	28
Communications Inds/electronics	3.17	22	19.5	1.13	61.5	21	5.5	4
Augat/electrical equip	3.16	36⅛	30.1	1.21	188.5	26	6.5	32
Dow Jones & Co/publishing	3.16	41	22.9	1.79	830.3	26	0.8	11
Felmont Oil/oil and gas, minerals	3.15	23⅞	18.2	1.31	78.8	33	1.5	8

NA: Not available

Sources: Media General Financial Services Inc. by Business Information Systems, Wilshire Associates, Forbes